

Virginia Department of Social Services

TITLE IV-E MATRIX UNDERSTANDING AND CLAIMING IV-E FOSTER CARE ADMINISTRATIVE COSTS March 1, 2004

➤ **Cost Allocation Plans and Approvals**

When an allocation is required by an applicable home or facility for certain IV-E costs, the allocation plan must be approved by the LDSS. A written narrative description of this plan describing the allocation methodology should be available and provided to the LDSS.

Allocations plans often include the allocation of indirect and direct costs but often use different methodologies within the plan for each. The allocation method used by vendor's providing contractual services for LDSS children must be based on sound accounting practices and applicable federal and state regulations. The purpose of the cost allocation is:

- To ensure direct and indirect costs are properly and accurately recorded within each program area,
- To ensure each program (or child) receives its fair share of those costs which benefit the respective program, and
- To ensure each program's costs are properly identified (for example, direct care and administration).

➤ **Cost Allocation Requirements**

Cost allocation methodologies should meet the following requirements:

- A. Use direct costing whenever possible.
Direct (non-allocated) labor costs must be supported by timesheets that records the activities of the people who are providing direct care labor.
- B. Be a reasonable reflection of the actual business operations. Allocation methods that do not reasonably reflect the actual business operations and resources expended toward each unique business entity are not acceptable.
- C. Reflect only the portion of costs which is applicable to the specific program for which services are contracted.
- D. Be consistent in the use of allocation methods, for cost-reporting purposes, across contracts, program areas, and other businesses.
 - Revised allocation plan descriptions must be provided to the LDSS when a change to the methodology occurs.
- E. Be based on criteria directly related to program costs.
- F. Provide a clear and understandable explanation of the numerator and denominator of the allocation ratio used, described in words and in numbers. This description must show how the allocation ratios were calculated and the numbers which were used in the calculations.

For example, if you use units of service as your cost allocation method, then the days of service used to calculate the allocation ratio must be shown.

- G. Show 100% allocation of the costs being allocated.
- H. Show how and to which specific business components the remaining percentage of costs were allocated.
- I. Allocated amount(s) must reconcile with the amount(s) reported on the contractor's trial balance.
- J. Be clearly and completely documented in the contractor's work papers with details to show how specific allocations were made. This information should be available if requested.